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C O N F I D E N T I A L LISBON 002694

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E.O. 12958: DECL: 11/05/2009
TAGS: ECON EFIN PGOV PO
SUBJECT: PORTUGAL BANK NATIONALIZATION RATIFIED

Classified By: Gary B. Applegarth, Pol-Econ Officer, Embassy Lisbon
Reasons 1.4 (b) and (d).

¶1. (U) The Portuguese parliament ratified the nationalization of Banco Portugues de Negocios (BPN) announced by Finance Minister Teixeira dos Santos on November
¶2. The takeover, the first bank nationalization in Portugal since 1975, was prompted after days of negotiation failed to produce an acceptable plan ensuring BPN's solvency. Beginning November 3 the central bank is administering BPN operations, and management will transfer to state-owned Caixa Geral de Depositos at a later date. BPN losses from declining investment values are currently estimated at 700 million euros.

¶2. (U) Minister Teixeira dos Santos continued to emphasize the relative soundness of Portugal's financial system, and blamed BPN's troubles on mismanagement and possible malfeasance rather than the current economic crisis. Justice officials are investigating allegations of fraud, money laundering, and other illegal activities at BPN.

¶3. (U) Separately, parliament approved the 4 billion euro package previously proposed by PM Socrates to help Portuguese banks strengthen their capitalization ratios. Teixeira dos Santos said the stronger capital ratios will put Portuguese banks on a similar footing as other European banks. Although profitability in the financial sector is down, Portuguese banks' conservative lending practices have minimized the negative impacts of asset devaluation experienced by many other international banks.

¶4. (C) Comment: GOP and Central Bank contacts have been close-mouthed about the nationalization, but local business contacts generally agree that BPN's troubles stem from a long period of mismanagement and do not signal deeper distress for the broader Portuguese financial sector. End comment.
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